



Ramotshere Moiloa Local Municipality
Annual Financial Statements
for the year ended 30 June 2019

Ramotshere Moiloa Local Municipality

Annual Financial Statements for the year ended 30 June 2019

General Information

Mayor
Speaker
Chief Whip
Executive Council

K Mothoagae
AN Nyamane
KI Manthoko
C Dreyer
L Motsokwane
L Selebogo
B Monamodi
AB Cassanga
TB Sebolao
P Molefe
TR Moiloa
B Pheloane
MN Tshikovhi
D Moabi
B Kenosi
S Rantwa
O Modirwa
J Pule
U Morake
R Mogorosi
P Madisa
N Molokwane
IT Moloantsoa
J Mafora
S Thembo
TJ Morebantwa
IS Suliman
RSB Phetwe
TN Sapala
L Selebego
K Venter
L Mosadi
SI Modibetsane
SF Ngweye
GS Motswenyane
NT Moroeng
T Modisane (appointed 12 December 2018)
Y Suliman (appointed 12 December 2018)
B Rajan (resigned 31 October 2018)
B Mooketsi (resigned 20 September 2018)

Councillors

Ramotshere Moiloa Local Municipality

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General Information

Grading of local authority	Grade 3
Accounting Officer	Ditshaba W Makhate
Chief Finance Officer	Morufa Moloto
Business address	C/o President & Coetzee Street Zeerust 2865
Postal address	P O Box 92 Zeerust 2865
Bankers	First National Bank
Auditors	Auditor General South Africa

Ramotshere Moiloa Local Municipality

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Ramotshere Moiloa Local Municipality

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Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.


The accounting officer acknowledges that she is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2020 and, in the light of this review and the current financial position, she is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements.

The annual financial statements set out on pages 5 to 52, which have been prepared on the going concern basis, were approved by the accounting officer on 30 August 2019 and were signed on its behalf by:



D Makhate
Municipal Manager

Ramotshere Moiloa Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting Officer's Report

The accounting officer submits her report for the year ended 30 June 2019.

1. Review of activities

Main business and operations

The municipality main business is the provision of services to the community in line with Part B of Schedule 4 and Part B of Schedule 5 of the Constitution. The municipality provides services in Zeerust, Lehurutse and Groot Marico.

Net surplus of the municipality is R 23 454 775 (2018: surplus R 2 281 941).

2. Going concern

The annual financial statements have been prepared on the going concern basis. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

3. Subsequent events

There are no significant events subsequent to the reporting period.

4. Accounting policies

The annual financial statements have been prepared in accordance with South African Standards of Generally Recognised Accounting Practice and the requirements of the Municipal Finance Management Act 2003 (Act No. 56 of 2003) (MFMA) and the Division of Act South Africa (Act No 2 of 2013) (DoRA).

The annual financial statements are prepared in accordance with the Statements issued by the Accounting Practices Board, and in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

5. Accounting Officer

The accounting officer of the municipality during the year and to the date of this report is as follows:

Name	Nationality	Changes
R.T Phakalane	South African	1 July 2018 to 11 July 2018
B.G Selebogo	South African	19 July 2018 to 19 January 2019
D Makhate	South African	appointed 1 February 2019

6. Corporate governance

General

The accounting officer is committed to business integrity, transparency and professionalism in all his activities. As part of this commitment, the accounting officer supports the highest standards of corporate governance and the ongoing development of best practice.

Audit and risk committee

The Audit Committee has complied with its responsibilities arising from Section 166 of the Municipal Finance Management Act and Circular 65 issued by National Treasury. The Audit Committee has adopted appropriate formal terms of reference as its Audit Committee Charter, and it has regulated its affairs in compliance with this charter and has discharged all its responsibilities as contained therein.

The Audit Committee, consisting of independent outside members, has met at least four times per annum as per its approved terms of reference, although additional special meetings were held.

7. Auditors

Auditor General South Africa will continue in office for the next financial period.

Ramotshere Moiloa Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Statement of Financial Position as at 30 June 2019

	Note(s)	2019 R	2018 Restated* R
Assets			
Current Assets			
Inventories	2	5 915 487	7 162 980
Receivables from exchange transactions	4	4 945 890	4 888 406
Receivables from non-exchange transactions	5	2 872 476	1 375 081
Consumer debtors	6	87 695 262	62 453 707
Cash and cash equivalents	7	11 621 579	15 278 462
		113 050 694	91 158 636
Non-Current Assets			
Investment property	8	53 930 538	54 014 422
Property, plant and equipment	9	601 336 045	586 087 476
Intangible assets	10	1 899 986	3 412 409
Heritage assets	11	404 550	404 550
Other financial assets	3	2 171 236	2 196 241
		659 742 355	646 115 098
Total Assets		772 793 049	737 273 734
Liabilities			
Current Liabilities			
Other financial liabilities	12	837 077	1 346 891
Finance lease obligation	13	679 992	1 118 144
Payables from exchange transactions	14	111 564 096	111 687 351
VAT payable	15	6 216 737	3 288 148
Consumer deposits	16	2 106 857	2 029 393
Employee benefit obligation	17	897 000	1 008 000
Unspent conditional grants and receipts	18	14 078 534	3 412 375
		136 380 293	123 890 302
Non-Current Liabilities			
Other financial liabilities	12	2 348 182	3 081 788
Finance lease obligation	13	-	679 992
Employee benefit obligation	17	31 144 000	37 213 000
Provisions	19	45 349 131	43 741 918
		78 841 313	84 716 698
Total Liabilities		215 221 606	208 607 000
Net Assets		557 571 443	528 666 734
Accumulated surplus		557 571 443	528 666 734

* See Note 47

Ramotshere Moiloa Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Statement of Financial Performance

	Note(s)	2019 R	2018 Restated* R
Revenue			
Revenue from exchange transactions			
Service charges	20	78 102 791	68 840 121
Licences and permits		1 230 714	1 100 121
Connections and disconnections		782 911	480 887
Rental income		113 263	149 268
Sundry Income		556 023	250 776
Sale of Land		475 897	1 111 881
Interest received - investment	21	1 041 295	1 716 519
Fair value adjustments		-	84 491
Actuarial gains		10 327 270	5 112 717
Provision for landfill site movement		1 461 573	-
Total revenue from exchange transactions		94 091 737	78 846 781
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	22	31 198 346	35 397 279
Transfer revenue			
Government grants & subsidies	23	206 258 841	184 542 406
Fines, Penalties and Forfeits	49	4 274 450	5 573 635
Total revenue from non-exchange transactions		241 731 637	225 513 320
Total revenue	24	335 823 374	304 360 101
Expenditure			
Bulk purchases	25	(49 907 187)	(44 853 817)
Contracted services	26	(8 610 415)	(8 625 960)
Debt Impairment		(2 020 180)	(4 170 325)
Depreciation and amortisation	27	(27 046 552)	(29 505 109)
Employee related costs	28	(130 030 667)	(128 049 711)
Finance costs	29	(12 840 504)	(5 615 708)
Lease rentals on operating lease	50	(24 151)	(538 024)
Remuneration of councillors	30	(13 240 917)	(13 610 114)
Loss on disposal of assets and liabilities		(4 814 585)	(6 164 835)
Fair value adjustments		(25 006)	-
Provision for landfill site movement		-	(12 383 918)
General Expenses	31	(63 808 435)	(48 560 639)
Total expenditure		(312 368 599)	(302 078 160)
Surplus for the year		23 454 775	2 281 941

* See Note 47

Ramotshere Moiloa Local Municipality

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Statement of Changes in Net Assets

	Accumulated surplus R	Total net assets R
Restated* Balance at 01 July 2017	526 384 793	526 384 793
Changes in net assets		
Surplus for the year	2 281 941	2 281 941
Total changes	2 281 941	2 281 941
Opening balance as previously reported	524 498 191	524 498 191
Adjustments		
Prior year adjustments	9 618 477	9 618 477
Restated* Balance at 01 July 2018 as restated*	534 116 668	534 116 668
Changes in net assets		
Surplus for the year	23 454 775	23 454 775
Total changes	23 454 775	23 454 775
Balance at 30 June 2019	557 571 443	557 571 443

* See Note 47

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Cash Flow Statement

	Note(s)	2019 R	2018 Restated* R
Cash flows from operating activities			
Receipts			
Service charges & rates		76 704 465	84 147 801
Grants		216 925 000	182 829 066
Interest income		923 404	1 875 591
Other receipts		5 357 639	4 887 522
		<u>299 910 508</u>	<u>273 739 980</u>
Payments			
Employee costs		(141 785 700)	(136 547 108)
Suppliers		(108 711 010)	(78 059 328)
Finance costs		(5 195 718)	(5 615 708)
		<u>(255 692 428)</u>	<u>(220 222 144)</u>
Net cash flows from operating activities	32	<u>44 218 080</u>	<u>53 517 836</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	9	(45 513 399)	(35 994 409)
Proceeds from sale of property, plant and equipment	9	-	42 774
Purchase of other intangible assets	10	-	(2 459 898)
Net cash flows from investing activities		<u>(45 513 399)</u>	<u>(38 411 533)</u>
Cash flows from financing activities			
Repayment of long term liabilities		(1 243 420)	(852 935)
Finance lease payments		(1 118 144)	(1 009 652)
Net cash flows from financing activities		<u>(2 361 564)</u>	<u>(1 862 587)</u>
Net increase/(decrease) in cash and cash equivalents		<u>(3 656 883)</u>	<u>13 243 716</u>
Cash and cash equivalents at the beginning of the year		15 278 462	2 034 746
Cash and cash equivalents at the end of the year	7	<u>11 621 579</u>	<u>15 278 462</u>

* See Note 47

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Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	101 159 397	-	101 159 397	78 102 791	(23 056 606)	46.1
Sale of land	5 883 385	-	5 883 385	475 897	(5 407 488)	46.2
Interest received (trading)	798 750	-	798 750	-	(798 750)	
Licences and permits	4 147 152	-	4 147 152	1 230 714	(2 916 438)	46.3
Sundry Income	3 042 600	-	3 042 600	782 911	(2 259 689)	46.15
Rental income	8 516	-	8 516	113 263	104 747	
Other Income	2 475 000	-	2 475 000	556 023	(1 918 977)	46.15
Interest received - investment	170 400	-	170 400	1 041 295	870 895	
Total revenue from exchange transactions	117 685 200	-	117 685 200	82 302 894	(35 382 306)	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	49 549 096	-	49 549 096	31 198 346	(18 350 750)	46.4
Transfer revenue						
Government grants & subsidies	212 853 614	-	212 853 614	206 258 841	(6 594 773)	46.5
Fines, Penalties and Forfeits	4 002 126	-	4 002 126	4 274 450	272 324	
Total revenue from non-exchange transactions	266 404 836	-	266 404 836	241 731 637	(24 673 199)	
Total revenue	384 090 036	-	384 090 036	324 034 531	(60 055 505)	
Expenditure						
Employee Related Costs	(129 084 736)	-	(129 084 736)	(130 030 667)	(945 931)	
Remuneration of councillors	(15 967 227)	-	(15 967 227)	(13 240 917)	2 726 310	46.6
Depreciation and amortisation	(30 744 640)	-	(30 744 640)	(27 046 552)	3 698 088	46.7
Finance costs	(1 770 089)	-	(1 770 089)	(12 840 504)	(11 070 415)	46.8
Lease rentals on operating lease	-	-	-	(24 151)	(24 151)	
Debt impairment	(21 300 000)	-	(21 300 000)	(2 020 180)	19 279 820	46.9
Bulk purchases	(43 558 500)	-	(43 558 500)	(49 907 187)	(6 348 687)	46.10
Contracted Services	(23 041 000)	-	(23 041 000)	(8 610 415)	14 430 585	46.11
General Expenses	(68 756 636)	-	(68 756 636)	(63 808 435)	4 948 201	46.12
Total expenditure	(334 222 828)	-	(334 222 828)	(307 529 008)	26 693 820	
Operating surplus	49 867 208	-	49 867 208	16 505 523	(33 361 685)	
Gain/(Loss) on disposal of assets and liabilities	2 700 000	-	2 700 000	(4 814 585)	(7 514 585)	46.13
Fair value adjustments	-	-	-	(25 006)	(25 006)	
Actuarial gains/losses	(267 131)	267 131	-	10 327 270	10 327 270	46.14
	2 432 869	267 131	2 700 000	5 487 679	2 787 679	
Surplus before taxation	52 300 077	267 131	52 567 208	21 993 202	(30 574 006)	
Surplus/(Deficit)	52 300 077	267 131	52 567 208	21 993 202	(30 574 006)	

Ramotshere Moiloa Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

1.1 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.2 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements.

These estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revisions affects only that period of the revision and future periods if the revision affects both the current and future periods. The nature and reasons of the uncertainty, judgement made and the impact to the amounts presented in the financial statements are disclosed in the notes to the annual financial statements. Significant judgements include:

Trade receivables

The municipality assesses its trade receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets.

Provisions

Useful lives and residual values of assets

The municipality's management determines the estimated useful lives and related depreciation charges for the waste water and water networks. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

The municipality reviews residual values of assets to determine if there is a change in the amount that the municipality would obtain from disposal of the asset, after deducting the estimated costs of disposal, if that asset was already of the age and condition expected at the end of its useful life.

Ramotshere Moiloa Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1.2 Significant judgements and sources of estimation uncertainty (continued)

Post retirement benefits

The present value of the post employment medical benefits are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long term nature of these plans, such estimates are subject to significant uncertainty. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

1.3 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Cost model

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value by equal installments over the useful life of the property, which is as follows:

Item	Useful life
Property - land	indefinite
Property - buildings	20 years

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

1.4 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

Ramotshere Moiloa Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1.4 Property, plant and equipment (continued)

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

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Accounting Policies

1.4 Property, plant and equipment (continued)

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Land		Indefinite
Buildings	Straight line	20 - 100 years
Plant and machinery	Straight line	3 - 10 years
Furniture and fixtures	Straight line	3 - 10 years
Motor vehicles	Straight line	5 - 10 years
Office equipment	Straight line	3 - 10 years
Computer equipment	Straight line	3 - 10 years
Infrastructure	Straight line	20 - 100 years
Community	Straight line	20 - 100 years
Other property, plant and equipment	Straight line	3 - 10 years
Roads & stormwater assets	Straight line	20 - 100 years
Electricity assets	Straight line	20 - 100 years
Other assets	Straight line	3 - 10 years

The residual value, useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the municipality to amend the previous estimate unless expectations differ from the previous estimate unless expectations differ from previous estimates.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

1.5 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which a municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

- subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

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Accounting Policies

1.6 Intangible assets

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Depreciation method	Average useful life
Computer software	Straight line	3 years

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of intangible assets is included in surplus or deficit when the asset is derecognised.

1.7 Heritage assets

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

Assets are resources controlled by an municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

Carrying amount is the amount at which an asset is recognised after deducting accumulated impairment losses.

Class of heritage assets means a grouping of heritage assets of a similar nature or function in an municipality's operations that is shown as a single item for the purpose of disclosure in the annual financial statements.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

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Accounting Policies

1.7 Heritage assets (continued)

Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

Impairment

The municipality assesses at each reporting date whether there is an indication that the asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is included in surplus or deficit when the item is derecognised.

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Accounting Policies

1.8 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Classification

The entity has the following types of financial assets and liabilities as reflected on the face of the statement of financial position or in the notes thereto:

- Financial instruments at amortised cost;
- Financial instruments cost; and
- Financial instruments at fair value.

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Cash and cash equivalents

These are initially and subsequently recorded at fair value. For cash flow purposes, cash and cash equivalents include cash on hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, and bank overdrafts. These are subject to an insignificant risk of changes in value.

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Dividends or similar distributions relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Ramotshere Moiloa Local Municipality

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Accounting Policies

1.8 Financial instruments (continued)

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

1.9 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the municipality assesses the classification of each element separately.

Finance leases - lessee

The municipality leases certain property, plant and equipment. Leases of property, plant and equipment where the municipality assumes substantially all the risks and rewards of ownership are classified as finance leases. Finance lease assets and liabilities are recognised at the inception of the lease at the lower of the fair value of the leased assets and the present value of the future minimum lease payments.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges are included in other long term payables. The interest element of the finance cost is charged to the Statement of Financial Performance over the lease periods so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term. The municipality will not incur a finance lease liability other than that allowed by the MFMA Act (Act 56 of 2003).

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

Income for leases is disclosed under revenue in statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.10 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Ramotshere Moiloa Local Municipality

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Accounting Policies

1.10 Inventories (continued)

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Unsold properties are measured at the lower of cost and net realisable value. Cost is primarily determined by reference to the valuation roll or total cost of servicing the land such as direct costs and portion of overhead costs that relates to the development.

1.11 Impairment of cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets used with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense. Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

Ramotshere Moiloa Local Municipality

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Accounting Policies

1.11 Impairment of cash-generating assets (continued)

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

1.12 Impairment of non-cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:

- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

Ramotshere Moiloa Local Municipality

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Accounting Policies

1.12 Impairment of non-cash-generating assets (continued)

Designation

At initial recognition, the municipality designates an asset as non-cash-generating, or an asset or cash-generating unit as cash-generating. The designation is made on the basis of a municipality's objective of using the asset.

The municipality designates an asset or a cash-generating unit as cash-generating when:

- its objective is to use the asset or a cash-generating unit in a manner that generates a commercial return; such that
- the asset or cash-generating unit will generate positive cash flows, from continuing use and its ultimate disposal, that are expected to be significantly higher than the cost of the asset.

The municipality designates an asset as non-cash-generating when its objective is not to use the asset to generate a commercial return but to deliver services.

An asset used with the objective of generating a commercial return and service delivery, is designated either as a cash-generating asset or non-cash-generating asset based on whether the municipality expects to use that asset to generate a commercial return. When it is not clear whether the objective is to use the asset to generate a commercial return, the municipality designates the asset as a non-cash-generating asset and applies this accounting policy, rather than the accounting policy on Impairment of Non-cash-generating assets.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

1.13 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

Defined contribution plans

The municipality and its employees contribute to various pension, provident and retirement funds and its councillors contribute to the Pension Fund for Municipal Councillors. The retirement benefits are calculated in accordance with the rules of the funds. Full actuarial valuations are performed by the relevant funds on a regular basis as per the requirements of the various funds. Current contributions are recognised in surplus or deficit in the period in which the service is rendered by the relevant employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

Ramotshere Moiloa Local Municipality

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Accounting Policies

1.13 Employee benefits (continued)

Defined benefit plans

The municipality provides certain post retirement medical benefits by funding the medical aid contributions for retired members of the municipality. According to the rules of the medical aid fund associated with the municipality, when a member who joined the municipality under the current conditions of service retires, she/he is entitled to remain a continued member of such medical aid fund on retirement, in which case the municipality is liable for a certain portion of the medical aid membership fee. These funds are classified as defined benefit plans. The cost of providing the benefits is determined using the projected unit credit method prescribed by IAS 19. Future benefit values are projected using specific assumptions, and the liability for in service members is accrued over the expected lifetime. No plan assets exist and any actuarial gains or losses are recognised immediately.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.

Current service costs and interest costs are recognised as a period expense in the statement of financial performance and is matched to the benefit received during the working life of the employee. The current service costs include the expense for the benefits received by the employee currently in service and the cost of funding the employee when no longer in service. The expense for the year is included in the employee benefit expense in the statement of financial performance.

Past service costs are recognised immediately to the extent that the benefits are already vested, and are otherwise amortised on a straight line basis over the average period until the amended benefits become vested.

To the extent that, at the beginning of the financial period, any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the projected benefit obligation and the fair value of the plan assets (the corridor), that portion is recognised in surplus or deficit over the expected average remaining service lives of participating employees. Actuarial gains or losses within the corridor are not recognised.

Gains or losses on the curtailment or settlement of a defined benefit plan is recognised when the entity is demonstrably committed to curtailment or settlement.

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and reduces by the fair value of plan assets.

Any asset is limited to unrecognised actuarial losses and past service costs, plus the present value of available refunds and reduction in future contributions to the plan.

Other long term employee benefits

Long service awards are provided to employees who achieve certain pre-determined milestones of service within the municipality.

The municipality's net obligation in respect of long service awards is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The benefit is discounted to determine its present value.

1.14 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

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1.14 Provisions and contingencies (continued)

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If the municipality has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 35.

Illegal dumping: The municipality has an obligation to rehabilitate any contaminated land through illegal dumping. A provision has been established and recognised at the present value of the expenditure expected to settle the obligation and is carried at amortised cost.

Landfill sites: The municipality has an obligation to rehabilitate its landfill sites in terms of its licensing stipulations. A provision has been established from 2008/9. The amount of the provision is recognised at the present value of the expenditure expected to settle the obligation and is carried at amortised cost.

1.15 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Ramotshere Moiloa Local Municipality

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Accounting Policies

1.15 Revenue from exchange transactions (continued)

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

Service charges relating to electricity, water and sanitation are based on consumption. Meters are read and billed on a monthly basis and revenue is recognised when invoiced. Estimated consumptions are made monthly when meters have not been read. The estimates of consumption are recognised as revenue when invoiced. Adjustments to estimates of consumption are made in the invoicing period when meters have been read. These adjustments are recognised as revenue in the invoicing period.

Income from agency services: Income from agency services is recognised on a monthly basis once the income collected/received on behalf of agents has been quantified. The income is recognised in terms of the agency agreement.

Interest

Revenue arising from the use by others of municipal assets yielding interest or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Ramotshere Moiloa Local Municipality

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Accounting Policies

1.16 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by a municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arises when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, a municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Ramotshere Moiloa Local Municipality

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Accounting Policies

1.16 Revenue from non-exchange transactions (continued)

Government grants and subsidies

Government grants are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with any restrictions associated with the grant.

The municipality assesses the degree of certainty attached to the flow of future economic benefits or service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants is only recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed programme may not be sufficient evidence of the probability of the flow. Revenue is then only recognised once evidence of the probability of the flow becomes available, which in most cases is on receipt.

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. Where there is no restriction on the period, such revenue is recognised on receipt or when the Act becomes effective, whichever is earlier.

When government remit grants on a re-imbursement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

1.17 Value Added Tax

The municipality accounts for Value Added Tax (VAT) on a cash basis. The municipality is liable to account for VAT at the standard rate of 15% (14% for periods before 1 April 2018) in terms of section 7(1)(a) of the VAT Act in respect of supply of goods or services, except where the supplies are specifically zero-rated in terms of section 11, exempted in terms of section 12 of the VAT Act or are scoped out for VAT purposes. The municipality accounts for VAT on a monthly basis.

1.18 Prepaid electricity

Revenue from the sale of electricity using pre-paid meter cards is recognised based on consumption.

The related cost of providing services recognised as revenue in the current period is included in cost of sales.

1.19 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.20 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.21 Comparative figures

When the presentation or classification of items in the financial statements is amended, prior period comparative amounts are reclassified. The nature and reasons for the reclassification are disclosed.

Where accounting errors have been identified in the current financial year, the correction is made retrospectively as far as it is practical and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as it is practical and the prior year comparatives are restated accordingly.

Ramotshere Moiloa Local Municipality

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Accounting Policies

1.22 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.23 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.24 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

- (a) this Act; or
- (b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
- (c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

1.25 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Ramotshere Moiloa Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1.25 Related parties (continued)

The entity operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the local sphere of government are considered to be related parties.

1.26 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

1.27 Budget information

Variances between budget and actual are regarded as material when there is a variance of:

- 10% in the statement of financial position, statement of financial performance and the cash flow statement.
- 5% in capital expenditure.

1.28 Services in kind

The municipality does not recognise services in kind as revenue or assets, but are disclosed as a note to the annual financial statements.

1.29 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.30 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on an accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2018/07/01 to 2019/06/30.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

Ramotshere Moiloa Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

	2019 R	2018 R
2. Inventories		
Consumable stores	5 915 487	7 162 980
3. Other financial assets		
Designated at fair value		
Unit trusts	2 171 236	2 196 241
Terms and conditions		
Non-current assets		
Designated at fair value	2 171 236	2 196 241
4. Receivables from exchange transactions		
Third party vendors	804 537	744 305
Sale of land debtors	4 093 032	4 097 380
Rental debtors	48 321	46 721
	4 945 890	4 888 406
Third party vendors		
The municipality has a system for prepaid electricity whereby customers can purchase electricity through third party vendors, the money from the customers is received by Contour whom in turn pay over to the municipality.		
5. Receivables from non-exchange transactions		
Fines	2 581 773	1 024 506
Till shortages	6 140	-
Employee advances	(47 491)	18 521
Sundry debtors	332 054	332 054
	2 872 476	1 375 081
6. Consumer debtors		
Gross balances		
Rates	51 354 794	42 205 021
Electricity	72 231 232	61 970 220
Water and sanitation	61 278 642	59 042 919
Sewerage	5 569 833	4 666 054
Refuse and other	13 347 058	10 655 791
	203 781 559	178 540 005
Less: Allowance for impairment		
Rates	(26 928 610)	(27 441 607)
Electricity	(37 875 464)	(40 292 894)
Water and sanitation	(41 362 886)	(38 389 569)
Sewerage	(2 920 620)	(2 751 598)
Refuse and other	(6 998 718)	(7 210 630)
	(116 086 298)	(116 086 298)

Ramotshere Moiloa Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

	2019 R	2018 R
6. Consumer debtors (continued)		
Net balance		
Rates	24 426 184	14 763 414
Electricity	34 355 768	21 677 326
Water and sanitation	19 915 757	20 653 350
Sewerage	2 649 213	1 632 197
Refuse and other	6 348 340	3 727 420
	87 695 262	62 453 707
Rates		
Current (0 -30 days)	696 218	537 812
31 - 60 days	506 340	445 283
61 - 90 days	397 839	384 579
91 - 120 days	371 316	367 321
121 - 365 days	256 184	347 212
> 365 days	3 341 845	3 810 589
	5 569 742	5 892 796
Electricity		
Current (0 -30 days)	675 824	426 488
31 - 60 days	491 508	353 111
61 - 90 days	386 185	304 973
91 - 120 days	360 439	291 288
121 - 365 days	248 680	275 341
> 365 days	3 243 954	3 080 529
	5 406 590	4 731 730
Water		
Current (0 -30 days)	2 128 514	54 158
31 - 60 days	1 548 010	14 919
61 - 90 days	1 216 294	3 824
91 - 120 days	1 135 207	72 242
121 - 365 days	783 220	35 439
> 365 days	10 216 867	70 602
	17 028 112	251 184
Waste water		
Current (0 -30 days)	1 165 177	195 277
31 - 60 days	847 401	358 924
61 - 90 days	665 815	421 012
91 - 120 days	621 427	521 369
121 - 365 days	428 745	423 659
> 365 days	5 592 847	2 414 283
	9 321 412	4 334 524
Sewerage		
> 365 days	1 768 678	1 768 678

Ramotshere Moiloa Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

	2019 R	2018 R
6. Consumer debtors (continued)		
Refuse		
Current (0 -30 days)	635 042	154 158
31 - 60 days	461 848	127 638
61 - 90 days	362 881	110 238
91 - 120 days	338 689	105 291
121 - 365 days	233 673	99 525
> 365 days	3 048 199	3 780 911
	5 080 332	4 377 761
Reconciliation of allowance for impairment		
Balance at beginning of the year	(116 086 297)	(116 086 297)

7. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	908 843	798 909
Bank balances	3 842 695	2 956 769
Short-term deposits	6 870 041	11 522 784
	11 621 579	15 278 462

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2019	30 June 2018	30 June 2017	30 June 2019	30 June 2018	30 June 2017
FNB BANK - 62200495960	521 375	8 668	90 443	521 375	8 668	90 443
FNB BANK - 62224998023	447 563	161 250	196 909	447 563	161 250	196 909
FNB BANK - 54351140693	112 456	232 508	56 452	112 456	232 508	56 452
FNB BANK - 62063144431	2 761 301	2 554 343	844 744	2 761 301	2 554 343	844 744
Total	3 842 695	2 956 769	1 188 548	3 842 695	2 956 769	1 188 548

Ramotshere Moiloa Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

	2019 R	2018 R
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8. Investment property

	2019			2018		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	56 253 235	(2 322 697)	53 930 538	56 253 235	(2 238 813)	54 014 422

Reconciliation of investment property - 2019

	Opening balance	Depreciation	Total
Investment property	54 014 423	(83 884)	53 930 539

Reconciliation of investment property - 2018

	Opening balance	Depreciation	Total
Investment property	54 098 307	(83 884)	54 014 423

The municipality entered into a joint arrangement with ABSA Bank for the construction of a building for leasing purposes. The terms of the arrangement were as follows:

- The municipality contributed a piece of land, which was valued at R700,000 whilst ABSA contributed R6 300 000 for the construction of building.
- The municipality's contribution was deemed to be worth 10% and ABSA 90%.
- On completion of the building, ABSA occupied the building and leased additional rental space.
- Building operating costs are deducted from the rental income.
- ABSA is responsible for management of the building and in return compensated with 5% of rental income plus a management fee which will be agreed between the parties.
- The residue is shared in terms of the venturers' contribution.

In terms of GRAP 8 (Interest in Joint Ventures), the municipality's component/share of the building was recognised as Investment property. The nature of this jointly controlled asset is investment property as it is leased to tenants and the municipality earns rentals from it.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Ramotshere Moiloa Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

	2019			2018		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	29 982 310	(2 840 921)	27 141 389	29 844 150	(2 840 921)	27 003 229
Buildings	81 827 081	(57 787 369)	24 039 712	59 663 538	(42 545 931)	17 117 607
Plant and machinery	897 970	(810 824)	87 146	1 289 504	(795 478)	494 026
Furniture and fixtures	256 597	(231 453)	25 144	475 978	(404 234)	71 744
Motor vehicles	13 043 284	(10 909 735)	2 133 549	12 652 072	(10 314 847)	2 337 225
Office equipment	3 202 949	(2 565 797)	637 152	3 607 573	(1 578 700)	2 028 873
Computer equipment	4 965 807	(2 292 057)	2 673 750	4 860 221	(1 665 258)	3 194 963
Infrastructure	-	-	-	3 749 990	-	3 749 990
Community	137 363 048	(76 463 793)	60 899 255	117 399 028	(63 301 264)	54 097 764
Roads & stormwater assets	700 074 115	(283 304 674)	416 769 441	673 566 066	(266 528 134)	407 037 932
Electricity assets	94 533 131	(32 939 985)	61 593 146	94 531 175	(30 735 563)	63 795 612
Other assets	5 336 361	-	5 336 361	5 158 511	-	5 158 511
Total	1 071 482 653	(470 146 608)	601 336 045	1 006 797 806	(420 710 330)	586 087 476

Ramotshere Moiloa Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

	2019 R	2018 R
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10. Intangible assets

	2019			2018		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	4 671 609	(2 771 623)	1 899 986	4 671 609	(1 259 200)	3 412 409

Reconciliation of intangible assets - 2019

	Opening balance	Amortisation	Total
Computer software	3 412 409	(1 512 423)	1 899 986

Reconciliation of intangible assets - 2018

	Opening balance	Additions	Amortisation	Total
Computer software	1 967 100	2 459 898	(1 014 589)	3 412 409

Pledged as security

No Intangible assets have been pledged as security.

11. Heritage assets

	2019			2018		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Other	404 550	-	404 550	404 550	-	404 550

Reconciliation of heritage assets 2019

	Opening balance	Total
Other	404 550	404 550

Reconciliation of heritage assets 2018

	Opening balance	Total
Other	404 550	404 550

Pledged as security

No Heritage Asset has been pledged as security.

Ramotshere Moiloa Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

	2019 R	2018 R
12. Long-term liabilities		
At amortised cost		
DBSA Loan 100121/3 The loan has a fixed interest rate of 15.15% per annum and is repayable in 30 equal half-yearly instalments. The loan period is 15 years and redemption date is 30 June 2019. The loan has subsequently been paid	-	468 066
DBSA Loan 102400/1 The loan has fixed interest rate of 5% per annum and is repayable in 40 equal instalments. The loan period is 20 years expiring in 30 September 2028.	1 630 459	1 780 865
DBSA Loan 100702/1 The loan has a fixed interest rate of 11.73% per annum and is repayable in 40 equal half-yearly instalments. The loan period is 20 years and redemption date is 30 June 2026.	717 723	832 857
Short term portion of DBSA Loans	837 077	1 346 891
	3 185 259	4 428 679
Total other financial liabilities	3 185 259	4 428 679
Non-current liabilities		
At amortised cost	2 348 182	3 081 788
Current liabilities		
At amortised cost	837 077	1 346 891
13. Finance lease obligation		
Minimum lease payments due		
- within one year	703 626	1 250 891
- in second to fifth year inclusive	-	703 626
	703 626	1 954 517
less: future finance charges	(23 634)	(156 381)
Present value of minimum lease payments	679 992	1 798 136
Present value of minimum lease payments due		
- within one year	679 992	1 118 144
- in second to fifth year inclusive	-	679 992
	679 992	1 798 136
Non-current liabilities	-	679 992
Current liabilities	679 992	1 118 144
	679 992	1 798 136

Ramotshere Moiloa Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

	2019 R	2018 R
14. Payables from exchange transactions		
Trade payables	46 922 842	59 176 134
Payments received in advance	864 897	555 385
Other payables	95 414	95 414
Unallocated deposits	13 502 222	7 860 305
Accrued leave pay	8 981 030	7 775 115
Accrued bonus	3 387 042	3 107 073
Deposits received	164 875	160 770
Third party payables	17 102 093	13 313 091
Motor fees control	7 737 972	7 490 258
Retentions	2 613 622	2 052 565
Sundry payables	34 697	34 697
Other Creditors #9	10 157 390	10 066 544
	111 564 096	111 687 351

15. VAT payable

Net balance	6 216 737	3 288 148
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The municipality is registered for VAT on a payments basis.

16. Consumer deposits

Electricity	1 336 366	1 339 716
Water	770 491	689 677
	2 106 857	2 029 393

17. Employee benefit obligations

Defined contribution plan

The municipality has a policy to subsidise post-employment health care costs of employees that belonged to medical scheme on their retirement. The subsidy covers the employee as well as the spouse or dependent.

The amounts recognised in the statement of financial position are as follows:

Carrying value

Present value of the defined benefit obligation-wholly unfunded	32 041 000	38 221 000
Non-current liabilities	31 144 000	37 213 000
Current liabilities	897 000	1 008 000
	32 041 000	38 221 000

The municipality has no further obligation to cover unfunded benefits.

Ramotshere Moiloa Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

	2019 R	2018 R
18. Unspent conditional grants and receipts		
Unspent conditional grants and receipts comprises of:		
Unspent conditional grants and receipts		
Municipal Infrastructure Grant	10 731 628	1 636 564
Library Grant	500 000	500 000
LGSETA	437 855	437 855
INEP	2 409 051	-
Local Government	-	837 956
	14 078 534	3 412 375

See note 23 for reconciliation of grants from National/Provincial Government.

19. Provisions

Reconciliation of provisions - 2019

	Opening Balance	Additions	Total
Environmental rehabilitation	36 633 918	1 327 213	37 961 131
Long service award	7 108 000	280 000	7 388 000
	43 741 918	1 607 213	45 349 131

Reconciliation of provisions - 2018

	Opening Balance	Additions	Reversed during the year	Total
Environmental rehabilitation	24 250 000	12 383 918	-	36 633 918
Performance bonus	586 505	-	(586 505)	-
Long service award	7 108 000	-	-	7 108 000
	31 944 505	12 383 918	(586 505)	43 741 918

Environmental rehabilitation provision

The provision for rehabilitation of landfill sites relates to the legal obligation to rehabilitate landfill sites to a condition whereby it complies to the permit requirements issued in terms of the Mineral and Petroleum Resources Development Act, (Act, 28 of 2002). The provision was determined by an independent expert as at 30 June 2018 and approximates the discounted expected future cash flows using reasonable estimation techniques.

20. Service charges

Sale of electricity	58 672 829	50 318 992
Sale of water	9 376 489	8 881 669
Sewerage and sanitation charges	185 835	463 909
Refuse removal	9 867 638	9 175 551
	78 102 791	68 840 121

21. Investment revenue

Interest revenue		
Bank	1 041 295	1 716 519

Ramotshere Moiloa Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

	2019 R	2018 R
22. Property rates		
Rates received		
Residential	13 205 090	11 467 829
Commercial	9 408 645	9 191 901
State	561 109	522 541
Agriculture	8 023 502	14 215 008
	31 198 346	35 397 279

Property rates are levied on the value of land and improvements, which valuation is performed every four years. The last valuation came into effect on 1 July 2014. Interim valuations are processed on a continuous basis to take into account changes in individual property values due to alterations and subdivisions. Interim valuations are processed on a continuous basis to take into account changes in individual property values due to alterations and subdivisions.

Ramotshere Moiloa Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

	2019 R	2018 R
23. Government grants and subsidies		
Operating grants		
Equitable share	153 173 000	137 071 000
Capital grants		
Municipal infrastructure grant	38 408 936	35 067 436
Financial management grant	2 215 000	2 145 000
INEP	6 859 949	7 167 970
LGSETA	837 956	-
NMMDM water grant	3 000 000	2 000 000
Library grant	670 000	-
Extended public works programme	1 094 000	1 091 000
	53 085 841	47 471 406
	206 258 841	184 542 406

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

Municipal Infrastructure Grant (MIG)

Balance unspent at beginning of year	1 636 564	-
Current-year receipts	47 504 000	-
Conditions met - transferred to revenue	(38 408 936)	-
Other	-	1 636 564
	10 731 628	1 636 564

Conditions still to be met - remain liabilities (see note 18).

Financial management grant

Current-year receipts	2 215 000	2 145 000
Conditions met - transferred to revenue	(2 215 000)	(2 145 000)
	-	-

Conditions still to be met - remain liabilities (see note 18).

Library Grant

Balance unspent at beginning of year	500 000	500 000
Current-year receipts	670 000	-
Conditions met - transferred to revenue	(670 000)	-
	500 000	500 000

Conditions still to be met - remain liabilities (see note 18).

EPWP

Current-year receipts	1 094 000	1 091 000
Conditions met - transferred to revenue	(1 094 000)	(1 091 000)
	-	-

Conditions still to be met - remain liabilities (see note 18).

Ramotshere Moiloa Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

	2019 R	2018 R
23. Government grants and subsidies (continued)		
LGSETA		
Balance unspent at beginning of year	437 855	437 855
Conditions still to be met - remain liabilities (see note 18).		
INEP		
Current-year receipts	9 269 000	7 167 970
Conditions met - transferred to revenue	(6 859 949)	(7 167 970)
	2 409 051	-
Conditions still to be met - remain liabilities (see note 18).		
Local Government		
Balance unspent at beginning of year	837 956	837 956
Conditions met - transferred to revenue	(837 956)	-
	-	837 956
Conditions still to be met - remain liabilities (see note 18).		
NMMDM water grant		
Current-year receipts	3 000 000	2 000 000
Conditions met - transferred to revenue	(3 000 000)	(2 000 000)
	-	-
Conditions still to be met - remain liabilities (see note 18).		
24. Revenue		
Service charges	78 102 791	68 840 121
Licences and permits	1 230 714	1 100 121
Royalties received	782 911	480 887
Rental income	113 263	149 268
Sale of tender documents	556 023	250 776
Other income 2	475 897	1 111 881
Interest received - investment	1 041 295	1 716 519
Property rates	31 198 346	35 397 279
Government grants & subsidies	206 258 841	184 542 406
Fines, penalties and forfeits	4 274 450	5 573 635
	324 034 531	299 162 893

Ramotshere Moiloa Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

	2019 R	2018 R
24. Revenue (continued)		
The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	78 102 791	68 840 121
Licences and permits	1 230 714	1 100 121
Royalties received	782 911	480 887
Rental income	113 263	149 268
Sale of tender documents	556 023	250 776
Other income 2	475 897	1 111 881
Interest received - investment	1 041 295	1 716 519
	82 302 894	73 649 573
The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	31 198 346	35 397 279
Transfer revenue		
Government grants & subsidies	206 258 841	184 542 406
Fines, penalties and forfeits	4 274 450	5 573 635
	241 731 637	225 513 320
25. Bulk purchases		
Electricity	49 826 862	44 773 492
Water	80 325	80 325
	49 907 187	44 853 817
26. Contracted services		
Outsourced Services		
Meter Management	241 999	257 544
Security Services	8 368 416	8 368 416
27. Depreciation and amortisation		
Property, plant and equipment	25 450 246	28 490 520
Investment property	83 883	-
Intangible assets	1 512 423	1 014 589
	27 046 552	29 505 109

Ramotshere Moiloa Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

	2019 R	2018 R
28. Employee related costs		
Basic	78 170 041	74 143 875
13th Cheque	5 917 219	8 643 492
Medical aid - company contributions	8 339 731	7 796 096
UIF	588 491	598 422
SDL	1 009 589	957 533
(Decrease) / Increase in leave pay provision charge	1 205 915	197 270
Pension fund contributions	15 251 292	14 980 002
Travel, motor car, accommodation, subsistence and other allowances	1 381 998	997 331
Overtime payments	8 313 679	7 537 040
Long-service awards	562 751	1 252 524
Acting allowances	5 242 472	3 659 250
Housing benefits and allowances	841 360	863 335
Cellphone allowance	321 700	263 735
Bargaining council	34 055	34 023
Leave payout	601 360	921 223
Standby allowance	1 969 045	2 374 106
(Decrease) / Increase in bonus provision	279 969	2 830 454
	130 030 667	128 049 711

Remuneration of Municipal Manager

Annual Remuneration	693 668	749 841
Car Allowance	10 000	60 000
Leave Payout	-	42 777
Contributions to UIF, Medical and Pension Funds	744	9 026
SDL and Council Bargain	5 945	8 841
Housing Allowance	-	40 000
Cellphone Allowance	-	8 000
	710 357	918 485

Remuneration of Chief Finance Officer

Annual Remuneration	143 337	635 764
Car Allowance	47 779	40 000
Contributions to UIF, Medical and Pension Funds	297	1 190
SDL and Bargain Council	1 846	7 603
Cellphone Allowance	3 000	12 504
Housing Allowance	-	80 000
	196 259	777 061

Remuneration of Director Technical Services

Annual Remuneration	382 231	697 796
Car Allowance	95 558	-
Contributions to UIF, Medical and Pension Funds	744	1 338
SDL and Bargain Council	4 662	9 495
Cellphone Allowance	7 200	13 500
Leave payout	-	230 738
	490 395	952 867

Ramotshere Moiloa Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

	2019 R	2018 R
28. Employee related costs (continued)		
Remuneration of Director Community Services		
Annual Remuneration	382 231	460 263
Car Allowance	95 558	160 000
Contributions to UIF, Medical and Pension Funds	744	1 338
SDL and Bargain Council	4 671	7 483
Cellphone Allowance	7 500	12 000
Leave Payout	-	141 420
	490 704	782 504
Remuneration of Director Local Economic Development		
Annual Remuneration	286 673	98 856
Car Allowance	95 558	20 000
Contributions to UIF, Medical and Pension Funds	595	-
SDL and Bargain Council	3 147	-
Cellphone Allowance	6 000	1 500
	391 973	120 356
Remuneration of Chief Audit Executive		
Annual Remuneration	810 394	810 394
Car Allowance	120 000	120 000
Contributions to UIF, Medical and Pension Funds	1 785	1 785
SDL and Bargain Council	9 349	9 343
Cellphone Allowance	18 000	18 000
	959 528	959 522
Director Corporate Services		
Annual Remuneration	815 965	682 809
Car Allowance	271 980	145 990
Contributions to UIF, Medical and Pension Funds	1 785	1 338
SDL and Bargain Council	11 565	7 618
Cellphone Allowance	18 000	13 500
Housing allowance	-	20 000
	1 119 295	871 255
Remuneration of Executive Manager		
Annual Remuneration	543 994	593 448
Car Allowance	220 000	240 000
Contributions to UIF, Medical and Pension Funds	1 785	1 785
SDL and Bargain Council	9 006	8 073
Cellphone Allowance	11 000	12 000
Leave Payout	160 022	-
	945 807	855 306

Ramotshere Moiloa Local Municipality

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Notes to the Annual Financial Statements

	2019 R	2018 R
29. Finance costs		
Other interest	442 108	689 348
Trade and other payables	4 753 610	4 926 360
Interest on landfill site	2 788 786	-
Post retirement interest cost	4 856 000	-
	12 840 504	5 615 708

30. Remuneration of councillors

Mayor	879 661	847 560
Speaker	720 725	687 018
Chief Whip	392 431	370 852
Executive Council	2 651 141	1 903 558
Councillors	8 596 959	8 745 952
	13 240 917	12 554 940

In-kind benefits

The Mayor and Speaker are full time. Each is provided with an office and secretarial administration support at the cost of the Council. The Mayor and the Speaker each have the use of separate Council owned vehicles for official duties. The Mayor has one full-time bodyguard.

31. General expenses

Advertising	137 486	206 642
Commission paid	1 224 152	1 122 251
Auditors remuneration	2 651 252	230 350
Bank charges	806 124	865 070
Cleaning	470 080	106 051
Community development and training	514 286	259 700
Conferences and seminars	1 072 260	46 350
Consulting and professional fees	22 199 472	13 569 554
Consumables	104 772	132 696
Discount allowed	(1 546)	4 662 886
Electricity	71 411	1 039 327
Entertainment	138 151	136 705
Extended public works program	5 443 824	7 467 153
Fuel and oil	2 046 961	1 753 459
Funeral costs	165 795	211 600
Hire	256 211	214 812
IT expenses	352 178	193 604
Insurance	461 398	364 839
Other expenses	8 484 231	3 012 174
Pest control	29 870	29 500
Postage and courier	1 709	258 198
Printing and stationery	3 338 168	712 983
Software expenses	1 209 099	395 053
Staff welfare	1 500	199 363
Inventory adjustment	255 428	(660 610)
Subscriptions and membership fees	1 281 260	1 222 196
Telephone and fax	721 361	1 591 816
Training	353 945	160 522
Travel - local	952 351	839 312
Uniforms	508 658	592 934
Sitting allowance	2 688 600	2 576 706
	57 940 447	43 513 196

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Notes to the Annual Financial Statements

	2019 R	2018 R
32. Cash generated from operations		
Surplus	23 454 775	2 281 941
Adjustments for:		
Depreciation and amortisation	27 046 552	29 505 109
Gain on sale of assets and liabilities	4 814 585	6 164 835
Fair value adjustments	25 005	(84 491)
Debt impairment	2 020 180	4 170 325
Movements in retirement benefit assets and liabilities	(6 180 000)	(4 905 000)
Movements in provisions	1 607 213	12 594 413
Inventory adjustment	255 428	-
Errors adjusted	5 449 933	(1 188 054)
Leave and bonus accrual	1 485 884	-
Changes in working capital:		
Inventories	992 065	730 622
Receivables from exchange transactions	(57 484)	(27 759)
Consumer debtors	(25 241 555)	(32 194 449)
Other receivables from non-exchange transactions	(3 517 575)	3 375 023
Payables from exchange transactions	(1 609 139)	29 923 470
VAT	2 928 589	1 827 109
Unspent conditional grants and receipts	10 666 159	1 208 871
Consumer deposits	77 465	135 871
	44 218 080	53 517 836
33. Auditors' remuneration		
Fees	2 651 252	230 350

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	2019 R	2018 R
34. Commitments		
Authorised capital expenditure		
Already contracted for but not provided for		
• Property, plant and equipment	9 918 080	20 408 078
Not yet contracted for and authorised by accounting officer		
• Property, plant and equipment	36 986 223	-
Total capital commitments		
Already contracted for but not provided for	9 918 080	20 408 078
Not yet contracted for and authorised by accounting officer	36 986 223	-
	46 904 303	20 408 078
Authorised operational expenditure		
Already contracted for but not provided for		
• Professional fees	8 185 666	7 051 437
• Security	6 112 591	14 481 007
	14 298 257	21 532 444
Not yet contracted for and authorised by accounting officer		
• Professional fees	347 000	-
Total operational commitments		
Already contracted for but not provided for	14 298 257	-
Not yet contracted for and authorised by accounting officer	347 000	-
	14 645 257	-

This committed expenditure relates to projects and will be financed by available bank facilities, retained surpluses, existing cash resources, funds internally generated, etc.

35. Contingencies

Various contractual claims are by contractors/suppliers, customers, community members and previous employees are currently in dispute and are subject to mediation. The potential extent of the liability cannot be determined, since its subject to litigation however, an estimate for the expected outflow is as per below

Litigation and claims		
Breach of Contract	490 000	-
Contempt of court	176 978	-
Unfair Conduct - employees and ex -employees	2 850 000	2 430 151
Other matters	1 040 000	857 861
	4 556 978	3 288 012

Ramotshere Moiloa Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

	2019 R	2018 R
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36. Risk management

Financial risk management

Council has overall responsibility for the establishment and oversight of the entity's risk management framework. The municipality's risk management policies are established to identify and analyse the risks faced by the municipality, to set appropriate risk limits and controls and to monitor risks and adherence to limits.

The municipality's Finance department provides services to the business, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the municipality through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

The Budget and Treasury Office monitors and manages the financial risks relating to the operations through internal policies and procedures. These risks include interest rate risk, credit risk and liquidity risk. Risk management policies and systems are reviewed regularly to reflect changes to market conditions and the municipality's activities, and compliance with policies and procedures is reviewed by the internal auditors on a continuous basis, and annually by external auditors. The municipality does not enter into or trade financial instruments for speculative purposes.

Internal audit, responsible for initiating a control framework and monitoring and responding to potential risk, reports periodically to the municipality's audit committee, an independent body that monitors the effectiveness of the internal audit function.

Liquidity risk

Liquidity risk is the risk that the municipality will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The municipality's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the municipality's reputation.

Liquidity risk is managed by ensuring that all assets are reinvested at maturity at competitive interest rates in relation to cash flow requirements. Liabilities are managed by ensuring that all contractual payments are met on a timeous basis and, if required, additional new arrangements are established at competitive rates to ensure that cash flow requirements are met.

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The entity only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board.

37. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

38. Unauthorised expenditure

Opening balance	153 788 882	130 520 575
Current year	18 414 190	23 268 307
	<u>172 203 072</u>	<u>153 788 882</u>

Ramotshere Moiloa Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

	2019 R	2018 R
39. Fruitless and wasteful expenditure		
Opening balance	16 244 338	8 766 373
Current year movement	5 484 008	7 477 965
	21 728 346	16 244 338

Fruitless and wasteful expenditure has been reported to Council and the matter is still under investigation by Sec 32 Committee. The information required per MFMA s125(2)(d)(i)-(iii) is not available.

A detailed breakdown of the fruitless and wasteful expenditure incurred in the current year is disclosed in detail as below:

Eskom - Electricity	2 117 533	2 687 718
Auditor General - Audit fees	80 293	55 848
Telkom - Telephone	38 015	72 278
Municipal Gratuity Fund	273 365	48 480
SARS - Salaries	2 230 181	3 834 743
Interest on DBSA	296 907	108 186
Department of transport interest	447 714	670 713
	5 484 008	7 477 966

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Notes to the Annual Financial Statements

	2019 R	2018 R
40. Irregular expenditure		
Opening balance	153 138 291	140 616 963
Add: Irregular Expenditure - current year	41 245 068	12 521 328
	194 383 359	153 138 291
Analysis of irregular expenditure - current year		
Tenders/Quotations not advertised	-	7 390 928
Bid not advertised	16 026 237	-
SCM procedures not followed	4 589 279	924 811
Deviation form not filled	-	423 750
Gaps in SCM process	13 316 214	-
Expired contracts	2 407 461	14 636
Evaluation criteria inconsistent	3 304 141	3 205 818
Other	200 516	-
Not registered on CSD	1 401 220	34 000
BEE points incorrectly captured	-	527 385
	41 245 068	12 521 328
41. Additional disclosure in terms of Municipal Finance Management Act		
41.1. Contributions to organised local government		
Current year subscription / fee	1 276 260	1 181 890
Amount paid - current year	(1 276 260)	(1 181 890)
	-	-
41.2. Audit fees		
Opening balance	586 357	2 822 958
Current year subscription / fee	3 589 536	423 351
Amount paid - current year	(3 236 127)	(2 659 952)
	939 766	586 357
41.3. PAYE, SDL and UIF		
Opening balance	5 985 060	2 931 634
Current year subscription / fee	22 046 771	19 752 393
Amount paid - current year	(15 049 994)	(16 698 967)
	12 981 837	5 985 060
41.4. Pension and Medical Aid Deductions		
Opening balance	2 885 113	3 505 124
Current year subscription / fee	36 063 142	35 293 188
Amount paid - current year	(35 920 330)	(35 913 199)
	3 027 925	2 885 113
41.5. VAT		
VAT payable	6 216 737	3 288 148

All VAT returns have been submitted by the due date throughout the year.

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Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

	2019 R	2018 R	
41. Additional disclosure in terms of Municipal Finance Management Act (continued)			
41.6. Councillors' arrear consumer accounts			
The following Councillors had arrear accounts outstanding as at 30 June 2019:			
30 June 2019	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Dreyer C	2 763	884	3 647
Mothoagae PK	329	-	329
Moloantoa IT	514	-	514
Suliman Y	3 347	9 608	12 955
Sapala NT	880	-	880
Phetwe RSB	327	-	327
	8 160	10 492	18 652
30 June 2018	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Dreyer C	3 009	-	3 009
Mothoagae PK	311	-	311
Moloantoa IT	1 674	4 084	5 758
Rajan MF	15 484	235 379	250 863
Sapala NT	736	-	736
Phetwe RSB	346	-	346
Motladile LK	571	743	1 314
	22 131	240 206	262 337

42. Service in kind

During the current year, the municipality received assistance from the North West Provincial Government - Treasury. This took the form of appointment consultants to assist the municipality with the preparation of the audit and also audit support.

43. Distribution Losses

Kilowatt Hours	15 520 253	12 176 215
Total loss	15 547 444	11 446 915

The main reason for incurring electricity losses relates to heat dissipation when electricity flows through the conductors, illegal connections, meter tampering and incorrect metering. Average cost per KWH R1.00175 (2017: R0.8341).

44. New standards and interpretations

44.1 Standards and interpretations effective and adopted in the current year

In the current year, there were no new standards and interpretations that are effective for the current financial year and that are relevant to the municipality's operations.

45. Related parties

Key management and councillors receive and pay for services on the same terms and conditions as other ratepayers / residents.

List of all councillors is available on the information page and list of all directors is as per Note 28.

Ramotshere Moiloa Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

	2019 R	2018 R
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45. Related parties (continued)

The councillors that have outstanding debt have been included as part of the MFMA disclosure.

The rates, service charges and other charges are in accordance with approved tariffs that were advertised to the public. No bad debt expenses have been recognised in respect of amounts owed by related parties.

46. Budget differences

Material differences between budget and actual amounts

46.1 The actual service charges in the current year are less than the budgeted amount. The anticipated increase in revenue due to expected developments which did not happen

46.2 Expected land sale delayed to subsequent year.

46.3 The actual licences and permits income was less than the budgeted amount. This is mainly due to the testing station being set alight during the service protests.

46.4 Changes to valuation roll resulted in decrease.

46.5 Projects budgeted for not completed.

46.6 Expected increase in councillors did not happen.

46.7 Depreciation was under budgeted as more projects were completed earlier than anticipated.

46.8 Interest cost on retirement benefits and provisions not budgeted for

46.9 Debt impairment for consumer debtors not calculated. .

46.10 Increase in Eskom tariff not budgeted for.

46.11 Professional fees budgeted as contracted services included in general expenses instead.

46.12 Budgeted expenditure not incurred due to cashflow issues

46.13 More assets disposed than initially budgeted for.

46.14 Expenditure on retirement and provision movement not budgeted for..

46.15 Other income anticipated not received

Ramotshere Moiloa Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

		2019 R	2018 R	
47. Prior-year adjustments				
Presented below are those items contained in the statement of financial position, statement of financial performance and cash flow statement that have been affected by prior-year adjustments:				
Statement of financial position				
2018				
	Note	As previously reported	Correction of error	Restated
Inventories		7 020 503	142 477	7 162 980
Receivables from exchange properties		11 542 020	(6 653 614)	4 888 406
Receivables from Non Exchange		698 072	677 009	1 375 081
Consumer Debtors		58 247 095	4 206 612	62 453 707
Cash & Cash Equivalents		14 651 208	627 254	15 278 462
Property,Plant & Equipment		581 584 006	4 503 470	586 087 476
Investment Property		53 836 358	178 064	54 014 422
Intangible Assets		1 636 043	1 776 366	3 412 409
Other Financial Assets		2 325 089	(128 849)	2 196 240
Other Financial Liabilities		(5 937 624)	1 508 945	(4 428 679)
Payables from Exchange		(105 449 999)	(6 237 352)	(111 687 351)
Vat Payable		(1 229 377)	(2 058 771)	(3 288 148)
Consumer Deposits		(1 994 904)	(34 489)	(2 029 393)
Unspent Conditional Grant		(3 412 376)	1	(3 412 372)
Employee Benefit Obligation		(38 230 714)	9 714	(38 221 000)
Provisions		(45 025 000)	1 283 082	(43 741 918)
Effect on accumulated surplus		530 260 400	(200 081)	530 060 322
Errors				
Errors were identified during the current year which pertained to the prior year. These were corrected and the impact on accumulated is as per above.				
48. Deviations				
Analysis				
Deviations less than R200 000		1 613 674	1 617 331	
Deviations greater than R200 000		822 707	2 467 257	
		2 436 381	4 084 588	
49. Fines, Penalties and Forfeits				
Municipal Traffic Fines		4 274 450	5 573 635	
50. Lease rentals on operating lease				
Equipment				
Contingent amounts		24 151	538 024	

